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C O N F I D E N T I A L SECTION 01 OF 02 BAGHDAD 000476

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TAGS: [ECON](#) [EFIN](#) [EINV](#) [ENRG](#) [EPET](#) [PGOV](#) [PINR](#) [PREL](#) [IZ](#)
SUBJECT: FORMER OIL MINISTER GHADBAN ON OIL SECTOR'S FUTURE
IN IRAQ

REF: A. BAGHDAD 405
[1](#)B. BAGHDAD 444

Classified By: Classified by DCM David Satterfield for reasons 1.4 (B)
and (D).

[1](#)1. (C) SUMMARY: Transitional National Assembly (TNA) member and former Minister of Oil Thamar Ghadban said on February 12 that he and others in the GOI have concerns over potential corruption and improper activities at the Ministry of Oil by Fadhila party members since they took over the Ministry in January. Widely talked about as a possible Minister of Oil in the next government, Ghadban said he has a plan for the reorganization of the Iraqi oil sector. He asserted that new oil sector legislation -- mandating industry reorganization and authorization of foreign direct investment in the oil industry -- could be passed in the first six months of the new government. END SUMMARY

POLITICS AT MINISTRY OF OIL

[1](#)2. (C) During a February 12 discussion with Emboffs, TNA member and former Minister of Oil Thamar Ghadban said that he and others in the GOI are quite concerned about maintaining the Ministry of Oil (MOO) as a non-politicized ministry in the next government. Ghadban, a moderate Shi'a who left Ayad Allawi's party (the Iraqi National List) and is now in the "kitchen cabinet" of SCIRI's Prime Minister-nominee 'Adil 'Abd al-Mahdi, said that the Fadhila Party's political takeover of the MOO after former Minister Ibrahim Bahr al-'Uloom left in January is quite disturbing (ref A). The arrival of Acting Minister of Oil Hashim al-Hashimi (Fadhila Party member and Minister of Tourism and Archeology), Ghadban explained, has generated much resistance from the long-term senior MOO employees.

[1](#)3. (C) Ghadban said that many of the Directors General (DGs) have threatened to resign due to actions by the new minister and his new senior advisor, ministry outsider Kadhim al-Yakubi (also a Fadhila member). Yakubi, in Ghadban's view, does not have the desired expertise or knowledge to run the ministry (ref B). Ghadban added that he is quite concerned, for example, over money being siphoned from State Oil Marketing Organization (SOMO) contracts to the Fadhila Party via kickback schemes on the sales of crude oil and refined products. Ghadban called this "a very poor situation" that would not change until the new government is in control, and then only if the MOO is not again placed in Fadhila hands. If the present situation continues into the next government, he asserted, he will continue to raise his concerns. Ghadban said he believes that the Minister of Oil should be above politics and should serve all of Iraq.

FUTURE OF THE OIL SECTOR -- GHADBAN'S PERSPECTIVE

14. (C) According to Ghadban, the oil sector in Iraq needs strong, forward-looking leadership. In addition, he said, the MOO must be reorganized, a new oil policy must be implemented, and the Iraqi National Oil Company (INOC) must be resurrected. Ghadban suggested that INOC should be a holding company with four regional operating companies -- one for Kurdistan and one each for the north, central and southern regions. The companies, he explained, would be responsible for exploration and production of oil in their respective regions. He added that these companies also should be empowered to create subsidiary companies, initiate production-sharing and service agreements with the private sector, and be responsible for refining and distribution in their regions. These companies would be the major engines of the oil sector in Iraq, he continued, and their operations would produce revenue to be shared among the regions and the central government. The regional revenue shares would be negotiated by the legislature, most likely in the range of 10-15 percent, but could be higher if determined by the Parliament.

15. (C) Under Ghadban's plan, the regional areas of operation for the Iraqi regional oil companies would be determined through negotiations; however, the exact boundary of the Kurdistan Oil Company should be aligned with the negotiated borders of Kurdistan. He said that he favors foreign direct investment (FDI) in the downstream refining, marketing, and natural gas sectors, as well as in the upstream production sector. He predicted that, with sufficient FDI, Iraq could be self-sufficient in oil products

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production and distribution within five to six years.

16. (C) Ghadban said that SOMO should remain the marketing agent for Iraqi oil but should come under a board of directors selected from the Ministry of Finance, the Central Bank of Iraq, the regional oil companies, the Council of Representatives, and technical experts. Emboffs suggested that, as the GOI looks at ways to promote foreign investment in Iraq's oil sector, it should consider ratifying the Convention on Recognition and Enforcement of Foreign Arbitral Awards (the New York Convention) to govern disputes. Ghadban responded that he thought Iraq already accepted the principle of international arbitration in its agreements but that it is unclear whether Iraqi law actually recognizes international dispute settlement.

FAST ACTION ON PETROLEUM LAW?

17. (C) Ghadban estimated that the newly elected legislature would pass a national oil policy and a new petroleum law during the first six months of the new government. He said that he has a copy of the new petroleum law in draft, but he was unwilling to share it as he had not shown it to 'Abd al-Mahdi. (NOTE: This conversation took place minutes before the United Iraqi Coalition nominated Ibrahim Ja'fari rather than 'Abd al-Mahdi for PM. END NOTE.) Ghadban did say that his draft law includes: the reorganization of MOO into INOC and regional companies; language for model contracts; authorization for FDI; and a division of responsibilities for the oil sector in Iraq. He said that FDI probably could be initiated in the second half of 2007 if the right person were selected as the Oil Minister. However, if the MOO goes to Fadhlila, he warned, FDI could be delayed several years.

BIOGRAPHIC NOTES

18. (C) Tamar Ghadban, a moderate Shi'a, was born in 1945 in Babil, Iraq. He earned both a Bachelor's in Geology and a Master's in Petroleum Reservoir Engineering from the University College in London. He was a long-term employee of the Ministry of Oil, beginning work there in 1973. He served during the initial CPA period as the Minister of Oil from April to September 2003 and again in the Iraqi Interim Government from June 2004 to May 2005. He was elected in January 2005 to the TNA on the list of Ayad Allawi. He was a member of the Constitutional Drafting Committee and the Economic Committee. He is a highly regarded oil expert in Iraq and in the international oil industry, and he is known as one of the most effective technocrats in the oil sector. He has written extensively on the oil reservoirs in Iraq, and he advocates a steady approach to economic reform in the oil sector, including market pricing for oil products and FDI. As Minister of Oil, he closely associated the need for oil infrastructure protection with successful oil production and product distribution.

COMMENT

19. (C) COMMENT: Ghadban's plan for the future of the Iraqi oil industry is almost identical to the plan presented by Minister of Planning and Development Cooperation Bahram Salih last week. Ref B noted Salih's musing on February 13 that he might nominate Ghadban immediately to be Minister of Oil. The possibility that Salih, as one of Jalal Talabani's top aides, and Ghadban, as one of 'Abd al-Mahdi's, apparently have coordinated a forward-looking development plan for Iraq's oil industry might be an encouraging long-term development. It remains to be seen however, whether either of these men will have a place in the next government from which to implement their plans. END COMMENT.
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